



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kim Walesh
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: May 23, 2013

Approved

Date 5/23/13

**SUBJECT: 2013-2014 ICE CENTRE REVENUE FUND AMENDMENTS AND
SHARKS ICE AT SAN JOSE 2013-2014 PROPOSED CAPITAL BUDGET**

RECOMMENDATION

- 1) Approve the attached Sharks Ice at San Jose Capital Repairs and Replacement Budget in the amount of \$2,313,000 for 2013-2014 as submitted by the San Jose Arena Authority Board of Directors.
- 2) Approve the following amendments to the 2013-2014 Proposed Operating Budget in the Ice Centre Revenue Fund:
 - a) Decrease the Ice Centre Repairs/Replacements appropriation by \$2,835,250;
 - b) Establish an appropriation for Electrical Repairs in the amount of \$55,000;
 - c) Establish an appropriation for Mechanical Repairs in the amount of \$112,000;
 - d) Establish an appropriation for Miscellaneous Repairs in the amount of \$53,000;
 - e) Establish an appropriation for North/Center Ice Plant Replacement in the amount of \$2,000,000;
 - f) Establish an appropriation for Structures Repairs in the amount of \$43,000;
 - g) Establish an appropriation for Unanticipated /Emergency Repairs in the amount of \$50,000;
 - h) Establish an appropriation for Previously Approved Repairs Reserve in the amount of \$1,053,950; and
 - i) Decrease the Unrestricted Ending Fund Balance in the amount of \$531,700.

BACKGROUND

In the Lease and Management Agreement between the City and San Jose Arena Management (SJAM) for Sharks Ice at San Jose, the City is required to pay for the costs of all repairs and replacements to the facility. This includes all facility improvements, equipment and systems, but

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excludes SJAM's equipment, Sharks training center, and the mezzanine restaurant. City-responsible repairs are authorized through the Ice Centre Revenue Fund, a source that is funded solely through quarterly payments made by SJAM, which has full use and operation of the facility. Under the terms of the agreement, the Ice Centre Revenue Fund has been specifically designed to pay for the debt service associated with the construction and expansion of Sharks Ice and to cover the costs of facility capital repairs and improvements.

Included in the Sharks Ice at San Jose Lease and Management Agreement is an exhibit (Exhibit G) that includes a list of agreed upon capital repair and replacement items, such as ice chillers, HVAC, and electrical equipment. This exhibit serves as the basis for SJAM's annual proposed capital budget submittal. For the purposes of the agreement, the term "replacement" means the repair or replacement of those capital items specified in Exhibit G. The City has no obligation to pay for capital repairs or replacements not shown in Exhibit G. For items of capital repair or replacement which are not included in their approved capital repair plan and do not involve emergency work, SJAM is required to request in writing approval of the proposed capital items. When this occurs, City staff and the Arena Authority review the capital budget submittal and determine if the non-Exhibit G items should be recommended with the rest of the capital budget.

ANALYSIS

Per the agreement between the City and SJAM, for 2013-2014 SJAM submitted to the Arena Authority and the City a detailed capital repairs and replacements budget for Sharks Ice at San Jose. Following review of the annual capital budget, the Arena Authority Board of Directors recommended to the City to repair, replace, and/or renovate partially or fully various items at the Sharks Ice Centre such as amplifiers, boiler, and dashboards. The proposed budget also includes the \$2 million effort to replace the North/Center Ice Plant that includes a variety of work such as flooring, chillers, insulation, concrete, electrical, and piping. The attached recommended budget totaling \$2,313,000 details all repair and replacement items and the respective cost for these items. These costs will be funded through the Ice Centre Revenue Fund.

The Ice Centre Revenue Fund has sufficient funding to support the normal capital repairs and replacements proposed for 2013-2014. After these costs are taken into consideration and with conservative revenue and expenditure projections, the remaining unrestricted ending fund balance in this fund at the end of 2013-2014 is projected to be \$1.8 million.

Historically, the cost for the capital repairs and replacements have been carried in the Ice Centre Revenue Fund appropriation titled "Ice Centre Repairs/Replacements." However, to more precisely represent anticipated work, this memorandum recommends eliminating the broad appropriation and replacing it with several others representing the type of capital repair/replacement (e.g. electrical, mechanical). Further, an establishment of the Previously Approved Repairs Reserve is recommended to segregate funding allocated for the reimbursement of capital repairs previously approved, but not yet completed. As

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reimbursements are received and existing appropriations are insufficient, the Administration will bring forward adjustments to decrease the reserve and allocate the funding to the applicable appropriations, as needed.

The recommended 2013-2014 Proposed Budget amendments are displayed on the attached revision of the Ice Centre Revenue Fund Source and Use Statement. With the recommended addition of these appropriations that provide more detail on the types of repairs and replacements recommended by the Arena Authority, a Manager's Budget Addendum detailing the annual Sharks Ice proposed capital budget would not be needed in future budget cycles as recommendations would be brought forward as part of the release of future proposed operating budgets.

COORDINATION

This memorandum has been coordinated with the Arena Authority, the Office of the City Attorney, and the Department of Finance.

/s/

KIM WALESH
Director of Economic Development
Chief Strategist



JENNIFER A. MAGUIRE
Budget Director

For more information on this memorandum please contact Jim Shannon, Assistant to the City Manager, at 408-535-4852.

SHARKS ICE AT SAN JOSE
Capital Budget Recommendations for 2013-2014
As Detailed in Exhibit G of the Lease and Management Agreement

<u>Capital Repair/Replacement</u>	<u>Proposed Budget</u>
Amplifiers	\$ 41,000
Boilers	62,000
Carpeting	15,000
Dasherboards	15,000
Exhaust Fan Motors	25,000
Nets/Edgar/Graphics	8,000
Ice Chiller Plant	25,000
Lighting System	14,000
North/Center Ice Plant and Floors*	2,000,000
Painting	30,000
Roof	8,000
Rubber Floor	20,000
Unanticipated Repairs	<u>50,000</u>
Total 2012-2013 Proposed Capital Budget	\$ 2,313,000

* While the North/Center Ice Plant and Floors item is not specifically listed in Exhibit G, its constituent components are.

ICE CENTRE REVENUE FUND (432)

STATEMENT OF SOURCE AND USE OF FUNDS

	2011-2012 Actual	2012-2013 Adopted	2012-2013 Modified	2012-2013 Estimate	2013-2014 Proposed
SOURCE OF FUNDS					
Beginning Fund Balance					
Unrestricted	4,771,802	3,164,302	3,676,996	3,676,996	3,999,241
Total Beginning Fund Balance	4,771,802	3,164,302	3,676,996	3,676,996	3,999,241
Revenues					
Ice Centre - Additional Rent	53,167	55,074	55,074	54,989	55,911
Ice Centre - Base Rent	2,750,000	2,878,380	2,878,380	2,878,380	3,025,000
Interest	15,473	12,000	12,000	12,000	11,000
Total Revenues	2,818,640	2,945,454	2,945,454	2,945,369	3,091,911
TOTAL SOURCE OF FUNDS	7,590,442	6,109,756	6,622,450	6,622,365	7,091,152
USE OF FUNDS					
Expenditures					
Fuel Cell Equipment	2,000,000	0	0	0	0
Ice Ctr - Bond Expenses	335,290	0	0	0	0
Ice Ctr - Debt Service and Bond Expenses	1,218,010	1,784,000	1,784,000	1,784,000	1,868,000
Ice Ctr - Oversight Expenses	41,004	41,824	41,824	41,824	42,661
Ice Ctr - Repairs/Replacements	299,142	522,250	522,250	784,136	0
North/Center Ice Plant Replacement	0	0	0	0	2,000,000
Repairs - Electrical	0	0	0	0	55,000
Repairs - Mechanical	0	0	0	0	112,000
Repairs - Miscellaneous	0	0	0	0	53,000
Repairs - Structures	0	0	0	0	43,000
Repairs - Unanticipated/Emergency	0	0	0	0	50,000
Total Expenditures	3,893,446	2,348,074	2,348,074	2,609,960	4,223,661
Transfers					
General Fund - Insurance Expenses	20,000	13,250	13,250	13,164	13,250
Total Transfers	20,000	13,250	13,250	13,164	13,250
Ending Fund Balance					
Previously Approved Repairs Reserve	0	0	0	0	1,053,950
Unrestricted	3,676,996	3,748,432	4,261,126	3,999,241	1,800,291
Total Ending Fund Balance	3,676,996	3,748,432	4,261,126	3,999,241	2,854,241
TOTAL USE OF FUNDS	7,590,442	6,109,756	6,622,450	6,622,365	7,091,152